Sustainability-related disclosure

Product name:

ALLIANZ VALEURS DURABLES

Legal entity identifier: 5299004IUMQV66XKF662

Allianz Global Investors

Summary

ALLIANZ VALEURS DURABLES (the "UCI") promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of sustainable investments.

The UCI follows a best-in-class (BIC) quality approach to SRI that takes into account environmental and social factors and factors relating to human rights, good governance and ethics, using an SRI Rating based on these considerations to construct the portfolio. The UCI also applies minimum exclusion criteria relating to sustainability. By means of these exclusion criteria, the UCI takes into account the principal adverse impacts (PAI).

The UCI incorporates the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, while taking into account the principles of good governance by excluding companies involved in controversial practices according to international standards.

Sustainability indicators have been defined for the UCI to measure the attainment of its environmental and/or social characteristics. The sustainability indicators are derived from the binding elements defined for the UCI. The binding elements are monitored in pre-trade and post-trade compliance systems, thereby ensuring sufficient due diligence and constituting criteria for assessing compliance with the environmental and/or social characteristics of the UCI. For each sustainability indicator, a methodology based on different data sources has been defined to ensure accurate measurement and reporting of the indicators.

No sustainable investment objective, but partial commitment to sustainable investment

Information on how it is determined that the sustainable investment does no significant harm to any of the sustainable investment objectives, including how indicators relating to adverse impacts are taken into account and whether the sustainable investment complies with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

The UCI promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 25% of sustainable investments

Sustainable investments contribute to environmental and/or social objectives, for which the Managers refer, among others, to the United Nations Sustainable Development Goals (SDGs) and the EU Taxonomy objectives:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

The assessment of the positive contribution to environmental or social objectives is based on a proprietary framework that combines quantitative elements with qualitative data derived from internal research. The methodology begins with a quantitative analysis of an issuer's business activities. The qualitative element of the framework consists in assessing whether the business activities contribute positively to an environmental or social objective.

To calculate the positive contribution at the level of the UCI, the share of each issuer's turnover associated with economic activities contributing to environmental and/or social objectives is taken into account, provided that the issuer complies with the "do no significant harm" (DNSH) principle and good governance practices. An asset-weighted aggregation is then carried out. At present, therefore, our methodology does not consist of considering a company as a whole to be sustainable once a certain threshold has been reached. Furthermore, for certain types of securities that finance specific projects contributing to environmental or social objectives, the overall investment is deemed to contribute to environmental and/or social objectives. An assessment of compliance with the "do no significant harm" (DNSH) principle and the principles of good governance is also carried out for these securities.

In order to ensure that sustainable investments do no significant harm to any other environmental and/or social objectives, the Manager takes into account PAI indicators for which significant thresholds have been defined with the aim of identifying very harmful issuers. Issuers not meeting the significance threshold can be engaged for a limited time period to remediate the adverse impact. However, if the issuer does not meet the defined significant thresholds twice in succession or if the engagement fails, it does not pass the DNSH assessment. Investments in securities of issuers that do not pass the DNSH assessment are not considered sustainable investments.

All mandatory PAI indicators are taken into account either through the application of exclusion criteria, or through thresholds on a sectoral or absolute basis. Significant thresholds have been defined and refer to qualitative or quantitative criteria.

The lack of data coverage for certain data points equivalent to PAI indicators is used to assess PAI indicators as part of the DNSH assessment, where appropriate, in relation to the following indicators for companies: share of non-renewable energy consumption and production, activities with a negative impact on biodiversity-sensitive areas, emissions to water, lack of procedures and compliance mechanisms to ensure adherence to the UN Global Compact principles and the OECD Guidelines for Multinational Enterprises; with respect to sovereign states: GHG emissions intensity and investee countries subject to social violations. In the case of securities financing specific projects that contribute to environmental or social objectives, equivalent data at project level may be used to ensure that sustainable investments do no significant harm to any other environmental and/or social objectives. The Manager will seek to increase data coverage for PAI indicators with low data coverage by engaging with issuers and data providers. The Manager will regularly evaluate whether the availability of data has increased sufficiently to potentially include the assessment of such data in the investment process.

The minimum exclusion criteria for sustainability applied by the Manager screen out companies involved in controversial practices that run counter to international standards. The core normative framework consists of the UN Global Compact principles, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. Securities issued by companies that seriously breach the frameworks in question will not be included in the investment universe.

Environmental or social characteristics of the financial product

Description of the environmental or social characteristics promoted by the financial product

ALLIANZ VALEURS DURABLES promotes environmental and social factors and factors relating to human rights, good governance and ethics (this area does not apply to securities issued by a sovereign entity) through the implementation of a best-in-class approach within the investment process of the UCI. This approach includes the use of an SRI Rating to assess corporate or sovereign issuers and to construct the portfolio.

We also apply minimum exclusion criteria relating to sustainability.

No reference benchmark has been designated for the purpose of attaining the environmental and/or social characteristics that the UCI promotes.

Investment strategy

Information on the investment strategy used to attain the environmental or social characteristics promoted by the financial product and on the policy followed to assess the good governance practices of the investee companies, particularly with regard to sound management structures, employee relations, remuneration of staff and tax compliance

The objective of ALLIANZ VALEURS DURABLES is to invest in the equity markets of the Eurozone in accordance with the Socially Responsible Investment Strategy (SRI Strategy).

As part of the SRI best-in-class approach, the UCI takes into account environmental and social factors and factors relating to human rights, good governance and market behaviour as follows:

- The above-mentioned sustainability factors are analysed by the Manager using the SRI Research methodology in order to assess how sustainable development and long-term issues are taken into account in an issuer's strategy. SRI Research refers to the overall process of identifying potential risks as well as the potential opportunities of investing in the securities of an issuer, linked to the analysis of sustainability factors. SRI Research data combines external research data (which may have certain limitations) and internal analyses.
- Based on the results of the external and/or internal analyses of sustainability factors, an internal rating is calculated each month (SRI Rating) and then assigned to a company or sovereign issuer.

This internal SRI Rating is used to rank and select or weight securities as part of portfolio construction.

The UCI's general investment approach is described in the prospectus.

The principles of good governance are taken into account by screening out companies involved in controversial practices in accordance with international standards corresponding to the four good governance practices: sound management structures, employee relations, remuneration of staff and tax compliance. Companies in serious breach of their obligations in any of these areas will be considered non-investable. In certain cases, issuers that have been flagged up will appear on a watch list. These companies will appear on the watch list when the Manager believes that engagement may lead to improvement or when it is ascertained that the company has taken corrective action. Companies appearing on the watch list are considered investable, unless the Manager considers that the engagement or the company's corrective actions are failing to remedy the controversial practices deemed serious.

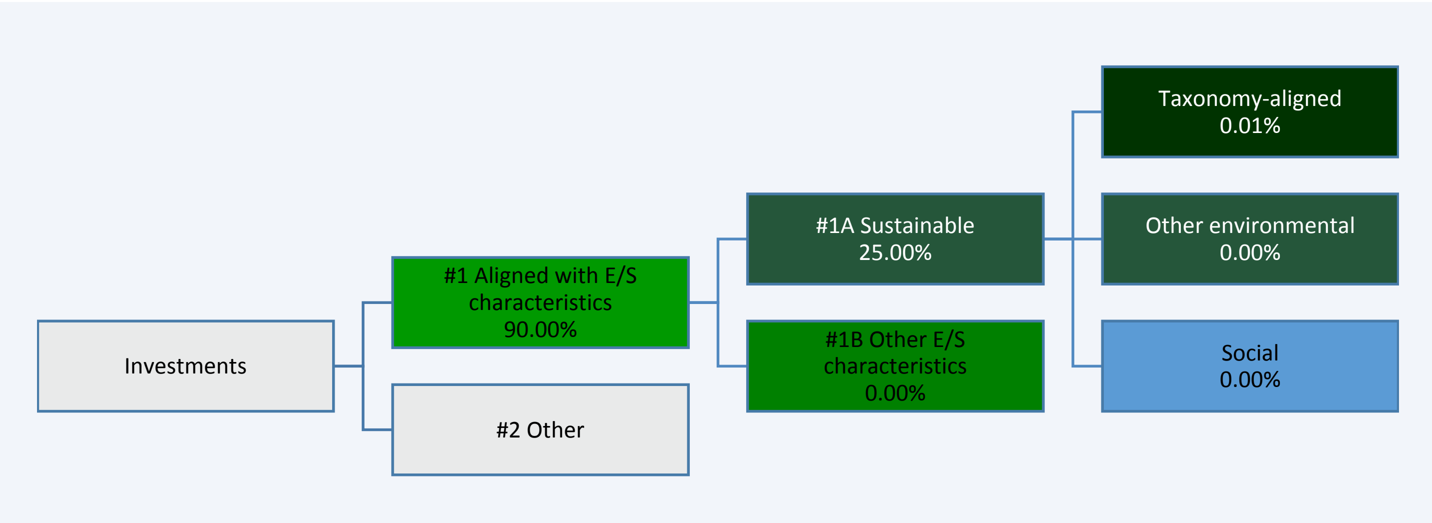
In addition, the Manager of the UCI is committed to actively encouraging dialogue with the companies in which it invests on corporate governance, proxy voting issues and the wider issue of sustainability in advance of shareholder meetings (on a regular basis for direct equity investments). The UCI Manager's approach to proxy voting and corporate engagement is set out in the Management Company's Shareholder Engagement Policy.

Proportion of investments

Information on the proportion of investments in which the fund has invested

At least 90% of the UCI's assets (excluding cash and unrated derivatives) are used to meet the environmental or social characteristics promoted by the UCI. A small portion of the UCI may contain assets that do not promote environmental or social characteristics. These instruments include derivatives, cash and deposits, certain target funds and investments with temporarily divergent or absent environmental, social or good governance qualifications. At least 25% of the net assets of the UCI will be invested in sustainable investments. The minimum percentage of Taxonomy-aligned investments is 0.01%. The Manager does not commit to a minimum share of environmentally sustainable investments that are not Taxonomy-aligned. The Manager does not commit to a minimum share of socially sustainable investments. Although the UCI cannot define a minimum share of sustainable investments with a specific environmental or social objective, these sustainable investments may be freely allocated to these two objectives within the minimum share of sustainable investments communicated at UCI level (min. 25% of net assets).

The UCI does not aim to invest in Taxonomy-aligned fossil gas and/or nuclear energy activities. However, due to the investment strategy, investments may be made in companies that are also active in these sectors. Where appropriate, further information will be provided in the annual report.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:
- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives;
- the sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

Monitoring of environmental or social characteristics

Information on how the environmental or social characteristics promoted by the financial product and the sustainability indicators used to measure the attainment of each of the environmental or social characteristics promoted by the financial product are monitored throughout the life cycle of the financial product and on the associated internal or external control mechanisms

The following sustainability indicators are used to measure the attainment of environmental and/or social characteristics and are presented at fiscal year-end:

- The actual percentage of the Fund's Portfolio assets (for this purpose, the Portfolio does not include unrated derivatives or instruments that are unrated by nature (e.g. cash and deposits)) invested in the best issuers (issuers with a minimum SRI Rating of 2 on a scale of 0 to 4; 0 being the worst rating and 4 the best rating) is compared with the actual percentage of the best performing issuers in the reference benchmark.
- Compliance with an investment universe reduction criterion of 20%
- Confirmation that the principal adverse impacts (PAI) of investment decisions on sustainability factors are taken into account through the application of exclusion criteria.

The sustainability indicators are derived from the binding elements defined for the UCI. All binding elements are monitored through internal compliance systems. Any potential breaches are reported to the relevant parties and resolved in accordance with internal procedures.

The above sustainability indicators are presented as part of regulatory reporting.

Methodologies

Description of the methodologies used to assess the way in which the social or environmental characteristics promoted by the financial product are complied with

The following methodologies are applied to enable the preparation of regulatory reports on the sustainability indicators of the UCI:

- The SRI Rating thresholds for best-in-class (BIC) quality are based on the SRI Rating. The SRI Rating is updated each month. Raw sustainability data is sourced from external data providers. At this stage, the data is subject to verification and quality control. In some cases, additional internal research is carried out, which may lead to a reassessment of the rating. The raw sustainability data is weighted according to its sectoral importance and used to calculate the scores for the constituent pillars of the SRI Rating (environment, social, governance, ethics). The final SRI Rating is calculated on the basis of its constituent pillars.
- The list of minimum exclusion criteria for sustainability is updated at least twice a year by the Sustainability team on the basis of external data sources.

Data sources and data processing

Information on the data sources used to attain each of the environmental or social characteristics promoted by the financial product, the measures taken to ensure the quality of the data, as well as the way in which the data is processed and the proportion of estimated data

The following data sources are used as input data to prepare the UCI's regulatory reports: Moody's ESG, Sustainalytics, ISS ESG, MSCI ESG.

AllianzGI's Sustainability and Impact Investing team selects third party data providers through a tendering process that is applied across AllianzGI. Data sourcing, methodology (qualitative and/or quantitative), raw data points, issuer coverage, resources in place, expertise, level of research detail, approach, IT support, client support and consistency/quality of data sources are all assessed and tested during the tendering process. Data from suppliers is fed directly into the internal cloud-based data lake in line with AllianzGI's data strategy. AllianzGI uses technologies such as Application Programming Interface (API) and Secure File Transfer Protocol (SFTP) where these are not made available by suppliers, allowing close monitoring and smooth, constant updating of data points. Controls are applied to data flows and their evolution over time (coverage, expected values etc.) in order to detect potential problems upstream in the data supply chain.

Limitations relating to methodologies and data

Information on limitations relating to methodologies and data sources and on how these limitations do not affect the way in which the environmental or social characteristics promoted by the financial product are complied with

Several general limitations apply. The UCI may use one or more third-party research data providers and/or internal analyses. In the assessment of an issuer's eligibility on the basis of research, there is a reliance on information and data from third-party research data providers and internal analyses, which may be subjective, incomplete, inaccurate or unavailable. Consequently, there is a risk that an incorrect or subjective assessment of a security or issuer may be made. There is also a risk that the Manager of the UCI may not correctly apply the relevant criteria resulting from the research or that the UCI following a sustainable investment strategy may have indirect exposure to issuers that do not meet the relevant criteria used in this strategy.

The coverage thresholds of the SRI Ratings are defined in such a way as to mitigate the effect of these limitations on the promotion of environmental and/or social characteristics.

Data coverage for PAI indicators is heterogeneous. Data coverage on biodiversity, water and waste is low, and the associated PAI indicators are taken into account either by using equivalent data or by excluding securities issued by companies that seriously breach international norms and standards such as the UN Global Compact principles, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights due to problematic practices in the areas of human rights, labour law, the environment and anti-corruption.

Due diligence

Information on the due diligence carried out on the underlying assets of the financial product, including the internal and external controls applied to that due diligence

The management company follows a risk-based approach to determine where unique instrument/transaction-specific pre-investment checks need to be performed, taking into account the complexity and risk profile of the investment concerned, the significance of the size of the transaction in relation to the Fund's NAV and the nature (buy/sell) of the transaction.

To ensure that the UCI meets its environmental and social characteristics, the binding elements are used as assessment criteria.

The binding elements are as follows:

- Minimum rating coverage: At least 90% of the Fund's portfolio must have an SRI Rating (in this regard, the portfolio does not include derivatives or instruments that are unrated in nature (e.g. cash and deposits)). Although most of the Fund's holdings have an SRI Rating, some investments cannot be assessed using the SRI Research methodology. Examples of instruments that cannot receive an SRI Rating include cash, deposits, target funds and unrated investments.
- Rated instruments maintain a minimum SRI Rating of 2 (on a scale of 0 to 4, where 0 is the worst rating and 4 is the best rating).
- Reduction of the investment universe by excluding at least 20% of issuers.
- Application of the following minimum exclusion criteria for sustainability, for investments in direct securities:
- securities issued by companies that severely breach principles and guidelines such as the United Nations Global Compact principles, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights on the grounds of problematic practices around human rights, labour rights, environment and corruption issues,
- securities issued by companies involved in controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, biological weapons, depleted uranium, white phosphorus and nuclear weapons),
- securities issued by companies that derive more than 10% of their turnover from weapons, military equipment and services,
- securities issued by companies that derive more than 10% of their turnover from thermal coal extraction,
- securities issued by utility companies that generate more than 20% of their turnover from coal,
- securities issued by companies involved in the production of tobacco, and securities issued by companies which generate more than 5% of their turnover from the distribution of tobacco.

Direct investments in sovereign issuers with insufficient Freedom House Index scores are excluded.

The minimum exclusion criteria for sustainability are based on information obtained from an external data provider and according to pre- and post-trade compliance rules. The review is carried out at least once every six months.

Engagement policies

Information on engagement policies implemented where engagement is part of the environmental or social investment strategy, including procedures for managing sustainability controversies involving investee companies

A description of AllianzGI's engagement policies and activities is available by clicking on the following link: https://www.allianzgi.com/en/our-firm/esg/active-stewardship.

The management company carries out engagement activities for its entire range of products. Engagement activities are defined at issuer level. Consequently, there is no guarantee that the engagements made cover the issuers held by each fund. The management company's engagement strategy is based on two pillars: (1) risk-based approach and (2) thematic approach.

The risk-based approach focuses on the significant ESG risks identified. Engagement activities are closely linked to the size of the exposure. The primary objective of engagement activities is determined by considerations such as significant votes against company management at previous general meetings and sustainability issues identified as being below market practice. Engagement activities can also be triggered by controversies relating to sustainability or governance.

The thematic approach links engagement activities to AllianzGI's three strategic sustainability themes (climate change, planetary boundaries and inclusive capitalism), as well as to governance themes relevant to specific markets or more broadly. Thematic engagement activities are defined on the basis of issues deemed important to portfolio investments and are prioritised according to the size of AllianzGI's holdings and the priorities of its clients.

Name of the file: Sustainability-related disclosure Version 2 as at 30.05.2023

Change history:

01.01.2023: Disclosure in accordance with the technical regulatory standards supplementing Regulation (EU) 2019/2088

30.05.2023: Integration of Nuclear and Fossil Gas declarations, adjustment of sustainable engagement percentage